Krause attempted to defeat summary judgment by claiming that a purported "licensing agreement" existed which allowed Titleserv to "use" but not "modify" the computer programs Titleserv had paid Krause to create. However, fatal to Krause's case below as well as his petition for certiorari, no such licensing agreement ever existed. The district court and the court of appeals specifically found that the record below was devoid of any evidence of a written licensing agreement. It simply does not exist. Nor was there any oral licensing agreement or even a shred of proof to support a claim that an oral licensing agreement existed.

In sum, the undisputed factual record revealed that Titleserv purchased the computer programs, owned copies of the computer programs and was permitted to modify the programs to add new clients in accordance with well settled law and 17 U.S.C. § 117. There is no reason or justification to grant certiorari.

SUMMARY OF ARGUMENT

This is a simple case which does not warrant review by this Court. Based upon the undisputed facts of this case and the clear and unambiguous controlling law in every circuit to consider the issue, a federal Magistrate[3], a federal District Court Judge[4], and the Second Circuit Court of Appeals[5], all unanimously concluded that Titleserv paid for and owned copies of the computer programs at issue and was entitled to

3. Pet. App. 34a to 56a.

4. Pet. App. 24a to 33a.

5. Pet. App. 1a to 23a.

summary judgment on the grounds that any modifications to the programs made by Titleserv were permissible under 17 U.S.C. § 117(a)(1).

As stated by the Second Circuit:

> [w]e conclude that Titleserv owned copies of the disputed programs within the meaning of § 117(a). We reach this conclusion in consideration of the following factors: Titleserv paid Krause substantial consideration to develop the programs for its sole benefit. Krause customized the software to serve Titleserv's operations. The copies were stored on a server owned by Titleserv. Krause never reserved the right to repossess the copies used by Titleserv and agreed that Titleserv has the right to continue to possess and use the programs, forever, regardless whether its relationship with Krause terminated. Titleserv was similarly free to discard or destroy the copies at any time it wished. In our view the pertinent facts in the aggregate satisfy § 117 (a)'s requirement of ownership of a copy. Pet. App. 10a-11a.

Moreover, Titleserv modified its copy of the programs only to meet its internal business needs and the modifications were essential to the continued functioning of the programs. The programs in question were designed specifically for Titleserv and customized for Titleserv's operations and the very purpose of the programs was to service Titleserv's growing client base. For Krause to claim that no new client information could be added to the programs frustrates the very purpose for which the software was purchased and designed. The Second Circuit concluded that Titleserv's

modifications were essential to its utilization of the programs within the meaning of 17 U.S.C. § 117(a)(1) because the "the adapations were essential to allow use of the program[s] for the very purpose for which [they were] purchased."[6] Thus, it was and is abundantly clear that Titleserv could not be held liable for copyright infringement.

To find infringement in this case would run contrary to well settled law which prevails not only in the Second Circuit, but every other circuit as well, and recognizes the sound policy underlying copyright law applicable to computers and computer programs. According to the National Commission on New Technological Uses of Copyrighted Works, "copyright laws should reflect the fact that transactions involving computer programs are entered into with 'full awareness that users will modify their copies to suit their own needs.'" *Aymes v. Bonelli*, 47 F.3d 25-26 (citing and quoting *Foresight Resources Corp. v. Pfortmiller*, 719 F. Supp. 1006, 1009 (D. Kan. 1989)).

Common sense, if not an application of 17 U.S.C. § 117, dictates that if a corporation pays substantial consideration to a computer programmer for copies of copyrighted software to run its business, that corporation is entitled, absent a written licensing agreement to the contrary, to create an "adaptation . . . as an essential step in the utilization of the computer program . . ." as its business grows and develops. No business would ever pay for a program without such a right. As such, Titleserv's actions fall squarely within 17 U.S.C. § 117 (1) which is a complete bar to a claim of copyright infringement.

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6. Pet. App. 13a (quoting *Aymes v. Bonelli*, 47 F.3d 23, 27 (2d Cir. 1995) (*Aymes* II).

Petitioner incorrectly claims the decision below declaring Titleserv to be a § 117 owner conflicts with decisions from Federal, Fifth and Ninth Circuit court of appeals based upon Petitioner's previously rejected claim that he had a licensing agreement with Titleserv. However, Petitioner, even at this stage, fails to acknowledge or comprehend that no licensing agreement between him and Titleserv ever existed. In contrast, in each of the cases cited by Petitioner, a specific written licensing agreement existed by and between the software creator and the software licensee. In this case there was no licensing agreement. For this reason alone, as well as those explained herein, those cases have no bearing on the decision below.

REASONS FOR DENYING THE PETITION

Petitioner cites no reason, let alone any compelling reason, why this Court should review this case. The Second Circuit properly applied 17 U.S.C. § 117 and the controlling case law. The decision below does not create any "conflicts among the circuits." There is nothing remarkable about this case which deserves this Court's attention.

Petitioner's claim that the Second Circuit's decision below creates a conflict among the circuits is based upon a complete misreading of inapposite cases from the Federal, Fifth and Ninth Circuit court of appeals. Even a cursory review of these cases demonstrates the pertinent facts in those decisions are completely inapposite to the facts of this case and the decision below does not create a conflict among the circuits but rather reinforces controlling and long settled copyright law. The balance of Petitioner's throw away arguments concerning statutory construction and the history of the CONTU are facially unavailing and shed no light on why certiorari should be granted.

Thus, review by this Court is unwarranted.

I. DISMISSAL UNDER 17 U.S.C. § 117 WAS WARRANTED

The district court and the court of appeals properly determined that any modifications that Titleserv made to the computer programs at issue could not, as a matter of law, constitute copyright infringement because Titleserv's actions fall within the scope of 17 U.S.C. § 117, which allows the owner of a copy of a computer program to make certain copies and adaptations.

17 U.S.C. § 117, entitled "Limitation on exclusive rights: Computer programs" provides in pertinent part:

> Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:
>
> > (1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner. . . .

17 U.S.C. § 117(a)(1).

The statute requires three elements. The new copy or adaptation must be (1) made or authorized by an "owner of a copy of the computer program;" (2) "created as an essential step in the utilization of the computer program;" and (3) "used in no other manner." *Id.* The undisputed record conclusively established that all three elements were satisfied and, thus, Titleserv was properly awarded summary judgment as a matter of law.

A. Titleserv Owned a Copy of The Computer Programs at Issue

When as here, Titleserv paid for the programs; Titleserv possessed the programs; Titleserv was entitled to forever use the programs without any further payment; and Titleserv's right of possession and use was unrestricted and perpetual, there was no question that Titleserv was and is a lawful owner of a copy of the computer programs. *See generally Aymes v. Bonelli*, 47 F.3d 23 (2d Cir. 1995); *Foresight Resources Corp. v. Pfortmiller*, 719 F. Supp. 1006 (D. Kan. 1989); *Rav Communications, Inc. v. Philip Brothers, Inc.*, 1988 WL 36174 (S.D.N.Y. 1988); *DCS Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir. 1999); *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988); *Softman Products Company, LLC v. Adobe Systems, Inc.*, 2001 WL 1343955 (C.D. Cal. 2001).

The undeniable proof of Titleserv's payment for, possession of and unrestricted right of use of the programs were not triable issues of fact as they were based upon the undisputed and irrefutable admissions of plaintiff William Krause. Thus, for, *inter alia*, all of the above reasons, both the district court and the court of appeals found the only possible conclusion to be drawn was that, on the undisputed facts, Titleserv at the very least owned a copy of the programs at issue and that the first requirement of 17 U.S.C. § 117 was met.

As stated by the Second Circuit:

> We conclude that Titleserv owned copies of the disputed programs within the meaning of § 117(a). We reach this conclusion in consideration of the

following factors: Titleserv paid Krause substantial consideration to develop the programs for its sole benefit. Krause customized the software to serve Titleserv's operations. The copies were stored on a server owned by Titleserv. Krause never reserved the right to repossess the copies used by Titleserv and agreed that Titleserv has the right to continue to possess and use the programs, forever, regardless whether its relationship with Krause terminated. Titleserv was similarly free to discard or destroy the copies at any time it wished. In our view the pertinent facts in the aggregate satisfy § 117 (a)'s requirement of ownership of a copy. Pet. App. 10a-11a.

B. There Was No License Which Restricted Titleserv's Right to Modify The Computer Programs

Krause claimed that a "license" existed which prevented Titleserv from modifying the computer programs at issue. However, this claim was and is pure fiction. Indeed, Krause admitted that no written licensing agreement existed. Instead, he claimed he had a verbal license agreement with Titleserv which prevented Titleserv from modifying the programs which Titleserv owned.

As noted by the district court below "[d]espite the lack of briefing provided by Krause and his failure to make a viable argument regarding the existence of any licensing agreement, on this motion for summary judgment, the court has *sua sponte* reviewed the record for evidence of such an agreement" and finds that no such agreement or understanding between the parties existed. (Pet. App. 49a). The district court also noted, parenthetically, even if an oral

license agreement existed, and clearly it did not, such a license would be barred by the statute of frauds provision, which provides that an exclusive license must be in writing. 17 U.S.C. § 204 (a) ("transfer if copyright ownership . . . is not valid unless and instrument of conveyance or a note or memorandum of the transfer is in writing"); *see also* 17 U.S.C. § 101 (includes exclusive license in the statutory definition of "transfer of copyright ownership"). *Id.*

The district court further held that even if the verbal license to which Krause testified was permissible under the copyright law, "Krause has provided no evidence whatsoever to support the existence of a contractual term that allows Titleserv to use the programs, but not modify the source code to allow for entry of new clients." Pet. App. 50a.

On this point the district court stated:

> [a]ccording to Krause's testimony, Titleserv 'had a license to use the executable program that they were using. That license did not go away. What went away was their was their rights to modify the programs.' This alleged contractual term flies in the face of reason since the inability to modify the programs to add new clients would render the programs immediately obsolete.

Pet. App. 50a.

The Second Circuit confirmed the district court's findings and with respect to Krause's claim that he told Titleserv it had no right to modify the programs once he left, the Second Circuit held "Titleserv's entitlement to do what it did arose as a matter of law and Krause's expression of his

opinion that it had no entitlement to do these things has no significance whatsoever." Pet. App. 12a.

Thus, contrary to Krause's self-serving claims, the district court and the court of appeals properly held that no license agreement existed and nothing could serve as bar to the application of 17 U.S.C. § 117 in this case.

C. The Modifications Made by Titleserv Were Permitted under 17 U.S.C. § 117

Aymes v. Bonelli, 47 F.3d 23 (2d Cir. 1995) is a leading case regarding permissible modifications under 17 U.S.C. § 117. With respect to changes made by § 117 owners of computer programs, such as Titleserv, the court of appeals stated the "right to make those changes necessary to enable the use for which it was both sold and purchased should be provided." *Id.* at 26 (citing Contu Report[7] at 32). Furthermore, as noted by the Court of Appeals in *Aymes* at 26:

> [a]ccording to the Contu Report, copyright laws should reflect the fact that transactions involving computer programs are entered into with 'full awareness that users will modify their copies to suit their own needs.' *Foresight Resources Corp. v. Pfortmiller*, 719 F. Supp. 1006, 1009 (D. Kan. 1989) (quoting Contu Report). This right of adaption includes 'the right to add features to the program that were not present at the time of rightful acquisition', (*Id.*), and was intended to apply to modifications for internal use, as long as the adapted

7. National Commission on New Technological Uses of Copyrighted Works ("CONTU"), Final Report, July 31, 1978 (Library of Congress, Washington D.C. 1979).

> program is not distributed in an unauthorized manner. *See Id.* at 1009-10; *Apple Computer, Inc. v. Formula Int'l, Inc.*, 594 F. Supp. 617, 621 (C.D. Cal. 1984).

Thus, based upon clear and undisputed facts of the case below, the Second Circuit held that "we can see no reason why the modest alterations to Titleserv's copies of the programs should not qualify"[8] for protection under 17 U.S.C. § 117(a) and that the changes Titleserv made did not harm the interests of Krause as a copyright owner and that Titleserv was not marketing or selling the computer programs. Pet. App. 20a. The court of appeals stated "in light of the CONTU Report which Congress followed, we conclude that Titleserv's changes to its copy of Krause's programs were 'essential step[s] in the utilization of the computer program[s] in conjunction with a machine' within the meaning of 17 U.S.C. § 117(a)(1)." Pet. App. 20a-21a.

II. THERE IS NO NINTH CIRCUIT CONFLICT

Contrary to Petitioner's mistaken assertion, the Second Circuit's decision below does not conflict in any way with the Ninth Circuit's decision in *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir 1993), *certiorari dismissed*, 510 U.S. 1033, 114 S. Ct. 671, 126 L. Ed. 640 (1994).

In the *MAI Systems* case, a software developer had a *written* software license which *expressly* restricted the use of or copying of its software by third parties. Indeed, the software license specifically provided as follows:

> *Customer Prohibited Acts.* . . . Any possession or use of the Software . . . not expressly authorized under

8. Pet. App. 20a.

> this License or any act which might jeopardize [MAI]'s rights or interests in the Software . . . is prohibited, including without limitation, examination, disclosure, copying modification, reconfiguration, augmentation, adaptation, emulation, visual display or reduction to visually perceptible form or tampering. . . . *Id.* at 511.

The Ninth Circuit held that a party who had copied the software went beyond the scope of the license and could be found liable for copyright infringement. This does not in any way conflict with the decision below. If Krause had a written licensing agreement that stated Titleserv did not own a copy of the programs and/or that expressly prohibited Titleserv from modifying the computer programs, perhaps the holding in *MAI Systems* would be relevant. However, as explained above, Krause did not have a written software license agreement, or any agreement for that matter, with Titleserv concerning the computer programs. As stated below, "the court finds as a matter of law that there was no license regarding the use of the computer programs [by Titleserv]." Pet. App. 49a. Thus, *MAI Systems Corp. v. Peak Computer, Inc.* has no bearing on this case and does not conflict with Second Circuit's decision below.

III. THERE IS NO FEDERAL CIRCUIT CONFLICT

Again, for similar reasons, contrary to Petitioner's mistaken assertion, the Second Circuit's decision below does not conflict in any way with the Federal Circuit's decision in *DCS Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir. 1999), *cert. denied*, 528 U.S. 923, 120 S. Ct. 286, L. Ed. 2d 240 (1999). Although Krause's argument regarding the *DCS* case is unclear at best, it appears

to be a claim that Titleserv does not own copies of the programs based upon his rejected and untenable argument that he licensed his computer programs to Titleserv.

Thus, the *DCS Communications* case and its extensive discussions about restrictive licensing agreements does not lend any support to Petitioner because Krause did not have a written software license agreement, or any agreement for that matter, which prohibited Titleserv from modifying the computer programs he created for Titleserv.

In *DCS*, the plaintiff copyright owners granted the defendants Regional Bell Operating Companies ("RBOCs") a written license to use certain software developed and copyrighted by plaintiff for as long as the software was in use. The question at issue was whether the RBOCs as licensees could also be deemed § 117 owners.[9] The Federal Circuit held that a software licensee could be a § 117 owner

---

9. In this regard, the Federal Circuit deviated somewhat from the Ninth Circuit's finding in *MAI Systems* that a software licensee could not be deemed § 117 owners by virtue of the license. In 1999, six years after the *MAI Systems* decision, the Federal Circuit took issue with the holding in MAI. The Federal Circuit noted that "[t]he Ninth Circuit stated that it reached the conclusion that Peak was not an owner because Peak had licensed the software from MAI. * * * That explanation of the court's decision has been criticized for failing to recognize the distinction between ownership of a copyright, which can be licensed, and ownership of copies of the copyrighted software. *See e.g.*, 2 Melville B. Nimmer, *Nimmer on Copyright* ¶ 8.08[B][1], at 8-119 to 1-121 (3d ed. 1997). Plainly, a party who purchases copies of software from the copyright owner can hold a license under a copyright while still being an "owner" of a copy of the copyrighted software for purposes of section 117. We therefore do not adopt the Ninth Circuit's characterization of all licensees as non-owners. *DCS Communications Corp.*, *supra* at 1354.

but that it would be appropriate and necessary to examine the specific written license agreements between the parties to determine whether those agreements establish that an entity being sued for copyright infringement is a § 117 owner and not a mere possessor of the computer programs.

In *DCS*, the copyright owner had a written licensing agreement which *specifically* characterized the defendants as "non-owners of copies of the software" and placed severe restrictions on the defendants use of the computer programs. As examples, the Federal Circuit noted that the written licensing agreements, *inter alia*, (1) limited defendant's right to transfer copies of the software or disclose the details of the software to third parties; (2) prevented defendants from providing, disclosing or making "the Software or any portions or aspects thereof available to any person except its employees on a 'need to know' basis without the prior written consent of [plaintiff DCS] . . ."; and (3) prevented defendants from using the software on hardware other than that provided by the plaintiff copyright owner.

In light of these severe restrictions placed on the copies of the programs possessed by the *DCS* defendants, the Federal Circuit held that it was improper for the district court to conclude, as a matter of law, that the *DCS* defendants were "owners" under 17 U.S.C. § 117 of the copies of the computer programs in their possession. *DCS Communications Corp.*, *supra* at 1362.

Indeed, the Federal Circuit held that

> [n]ot only do the agreements characterize the RBOCs as non-owners of copies of the software, but the restrictions imposed on the RBOCs' rights

> with respect to the software are consistent with that characterization. In particular, the licensing agreements severely limit the rights of the RBOCs with respect to the [relevant] software in ways that are inconsistent with the rights normally enjoyed by owners of copies of software.

Id. at 1361.

Thus, the *DCS* case stands for, *inter alia*, the proposition that the concept of ownership of a copy under 17 U.S.C. § 117 entails a variety of rights and interests and, in certain circumstances, a possessor of a copy of computer program may not necessarily be an "owner of a copy of a computer program" under 17 U.S.C. § 117 if "the possessors' right to use the software is heavily encumbered by other restrictions that are inconsistent with the status of owner." *Id.* at 1362.

In this case, Petitioner admitted there were no restrictions whatsoever, let alone severe restrictions, as to Titleserv's right to use the programs "as delivered" to Titleserv by the Petitioner. The programs "as delivered" could be used in any way, shape, or manner that Titleserv deemed appropriate.

In this context, it bears repeating that the Second Circuit concluded that:

> Titleserv owned copies of the disputed programs within the meaning of § 117(a). We reach this conclusion in consideration of the following factors: Titleserv paid Krause substantial consideration to develop the programs for its sole benefit. Krause customized the software to serve Titleserv's operations. The copies were stored on

> a server owned by Titleserv. Krause never reserved the right to repossess the copies used by Titleserv and agreed that Titleserv has the right to continue to possess and use the programs, forever, regardless whether its relationship with Krause terminated. Titleserv was similarly free to discard or destroy the copies at any time it wished. In our view the pertinent facts in the aggregate satisfy § 117 (a)'s requirement of ownership of a copy. Pet. App. 10a-11a.

At bottom, Krause did not have a written software license agreement, or any other agreement, which prohibited Titleserv from modifying the computer programs he created for Titleserv. Thus, *DCS Communications Corp. v. Pulse Communications, Inc.* is not on point and does not in any way conflict with the Second Circuit's decision below.

IV. THERE IS NO FIFTH CIRCUIT CONFLICT

Finally, contrary to Petitioner's tortured reading of a Fifth Circuit case, the Second Circuit's decision below does not conflict in any way with *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988). In fact, the Second Circuit even cites *Vault* in the decision below and in support thereof. Pet. App. 18a-19a.

In the *Vault* case, the copyright owner, Vault Corp., argued that the defendant had violated its copyright by loading the copyrighted program it had purchased into its computer's memory in order to design another commercial software product. Vault argued that the phrase and "used in no other manner," as employed in 17 U.S.C. § 117, should "be interpreted to permit only the copying of a computer

program for the purpose of using it for *its intended purpose*." Inasmuch as Vault's *intended purpose* for its software product was not to permit others to design another commercial software product, Vault argued that 17 U.S.C. § 117(1) was not applicable.

In discussing a case which has absolutely nothing to do with decision below, the Fifth Circuit's fact specific limited decision explained that:

> [e]ven though the copy of Vault's program made by Quaid was *not* used to prevent the copying of the program placed on the PROLOK diskette by one of Vault's customers (which is the purpose of Vault's program), and was, indeed, made for the express purpose of devising a means of defeating its protective function, the copy made by Quaid *was* 'created as an essential step in the utilization' of Vault's program. Section 117(1) contains no language to suggest that the copy it p e r m i t s must be employed for a use intended by the copyright owner, and, absent clear congressional guidance to the contrary, we refuse to read such limiting language into this exception. We therefore hold that Quaid did not infringe Vault's exclusive right to reproduce its program in copies under Section 106(1). *Id.* at 261.

The Second Circuit's fact specific decision that Titleserv's modifications to the program fell squarely within 17 U.S.C. § 117 does not conflict in any way with *Vault* or any other court of appeals to consider the issue. Krause's cryptic and misguided argument in connection with *Vault* is simply incorrect and of no import.

V. PETITIONER'S REMAINING ARGUMENTS ARE UNAVAILING

Krause's remaining arguments concerning statutory construction, the first sale doctrine and the history of CONTU[10] are unavailing and need not be addressed at length herein. Petitioner's statutory construction argument fails because Sections 109 and 117 of the Copyright Act are not in conflict and Petitioner cites no cases to support this argument. Section 109 of the Copyright Act[11] embodies the first sale doctrine which provides in relevant part at subsection (b)(1)(A) that:

> Notwithstanding the provisions of subsection (a), unless authorized by . . . the owner of copyright in a computer program . . . neither the owner . . . nor any person in possession of a particular copy of a computer program . . . may, for the purposes of direct or indirect commercial advantage, dispose of, or authorize the disposal of, the possession of that . . . computer program . . . by rental, lease, or lending, or by any other act or practice in the nature of rental, lease, or lending. . . .

17 U.S.C. § 109 is completely irrelevant to the facts of this case as no one, including the Petitioner and Titleserv, has ever sold, rented, leased or lent the computer programs at issue. In fact, notably, the statute was not raised by

10. National Commission on New Technological Uses of Copyrighted Works ("CONTU"), Final Report, July 31, 1978 (Library of Congress, Washington D.C. 1979).

11. 17 U.S.C. § 109.

Petitioner at any stage of this litigation. It was not raised on the summary judgment motion nor the subsequent appeal to the court of appeals. Indeed, there is absolutely no discussion of 17 U.S.C. § 109 or the first sale doctrine in the entirety of Second Circuit's decision below because the statute is not applicable to this case. The record below is completely devoid of any reference to 17 U.S.C. § 109 because it is entirely irrelevant. The fact that 17 U.S.C. § 109 was not raised on the summary judgment motion is also fatal to Petitioner's argument. The Second Circuit could not and this Court should not rule on an issue which was not raised below. As stated by this Court, "a federal appellate court does not consider an issue not passed upon below." *Singleton v. Wulff*, 428 U.S. 106, 120, 96 S. Ct. 2868, L. Ed. 2d 826 (1976). *See also Gwozdzinsky v. Magten Asset Mgmt. Corp.*, 106 F.3d 469, 472 (2d Cir. 1997) ("[W]e will not decide an issue on appeal not first presented to the district court."). Moreover, even if 17 U.S.C. § 109 was controlling in this case, and it is not, Petitioner's argument that the Federal Circuit's decision in *DCS Communications Corp., supra*, stands for the proposition that "the indicia of ownership of a copy of Section 117 must be consistent with a copy owner's right under the Section 109 first sale doctrine" is incorrect and inaccurate in any event. Pet. at 16. *DCS* simply does not stand for that proposition. Instead, as noted above, the *DCS* decision stands for the proposition that the concept of ownership of a copy under 17 U.S.C. § 117 entails a variety of rights and interests and, in certain circumstances, a possessor of a copy of computer program may not necessarily be an "owner of a copy of a computer program" under 17 U.S.C. § 117 if "the possessors' right to use the software is heavily encumbered by other restrictions that are inconsistent with the status of owner." *Id.* at 1362. 17 U.S.C. § 109 simply has no application to the decision below.

Petitioner's arguments regarding CONTU also miss the mark because, as stated above:

> According to the Contu Report, copyright laws should reflect the fact that transactions involving computer programs are entered into with 'full awareness that users will modify their copies to suit their own needs.' *Foresight Resources Corp. v. Pfortmiller*, 719 F. Supp. 1006, 1009 (D.Kan.1989) (quoting Contu Report). This right of adaption includes 'the right to add features to the program that were not present at the time of rightful acquisition', (*Id.*), and was intended to apply to modifications for internal use, as long as the adapted program is not distributed in an unauthorized manner. *See Id.* at 1009-10; *Apple Computer, Inc. v. Formula Int'l, Inc.*, 594 F. Supp. 617, 621 (C.D. Cal. 1984). *Aymes v. Bonelli* at 26.

Thus, based upon clear undisputed facts of the case below, the Second Circuit held that "we can see no reason why the modest alterations to Titleserv's copies of the programs should not qualify" (Pet. App. 20a) for protection under 17 U.S.C. § 117(a) and that the changes Titleserv made did not harm the interests of Krause as a copyright owner and that Titleserv was not marketing or selling the computer programs. *Id.* The court of appeals stated "in light of the CONTU Report which Congress followed, we conclude that Titleserv's changes to its copy of Krause's programs were 'essential step[s] in the utilization of the computer program[s] in conjunction with a machine' within the meaning of 17 U.S.C. § 117(a)(1)." Pet. App. 20a-21a.

Krause's final desperate and hyperbolic argument that "[a]s a result of the Second Circuit's decision below, computer program licensees are free to modify copyrighted programs for any purpose they claim as their reason for acquiring the software" is disingenuous at best. Krause simply fails to understand or acknowledge that Titleserv was not a software licensee. In any event, Krause may take solace in the fact the Second Circuits' decision below has absolutely no bearing on the relationship between software licensors and licensees, which is a purely contractual matter. If a software creator wishes to restrict the manner in which his or her software is to be used by the end-user, he or she should employ a written licensing agreement, often referred to as an "End User License Agreement," which spells out the parties' rights in connection with the software.

Titleserv paid for the programs and, at the very *least,* owned a copy of the programs. There simply was no software license and Titleserv only modified the programs they owned so the programs would operate and function as designed in accord with 17 U.S.C. § 117.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted,

RONALD J. ROSENBERG
KENNETH E. ANESER*
ROSENBERG CALICA & BIRNEY LLP
Attorneys for Respondents
100 Garden City Plaza
Suite 408
Garden City, New York 11530
(516) 747-7480

* *Counsel of Record*

Supreme Court
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No. : 05-166

In the

Supreme Court of the United States

WILLIAM KRAUSE dba Special-T software,

Petitioner,

v.

TITLESERV, INC., NEW YORK SETTLEMENT CORP., DAVID EISENBERG, KENNETH WODISKA, THOMAS MURPHY and JAMES J. CONWAY, III,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

REPLY TO BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

EUGENE D. BERMAN
Counsel of Record
FINE, FINE & BERMAN, LLP
Attorneys for Petitioner
445 Broadhollow Road, Suite 200
Melville, New York 11747
(631) 351-2100

DICK BAILEY SERVICE (212) 608-7666 (718) 522-4363 (516) 222-2470 (914) 682-0848 Fax: (718) 522-4024
1-800-531-2028

Parties to the Proceeding and Rule 29.6 Disclosure Statement

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Vault Corp. v. Quaid Software Ltd., 847 F.2d 255 (5th Cir. 1988). 2-5

Statutes:

17 U.S.C. § 109 ..... 5, 6

17 U.S.C. § 117(a). 1-3, 5, 8, 9

1. Respondents Err in Urging the Absence of a Circuit Conflict.

A. The Decision below Conflicts with the Ninth and Federal Circuits.

The circuit conflict occasioned by the Second Circuit's decision below is readily apparent. Its novel pronouncement "that formal title in a program copy is not an absolute prerequisite to qualifying for §117(a)'s affirmative defense" conflicts with the Ninth[1] and Federal Circuits'[2] contrary holdings.[3]

Rather than compare the Second Circuit's new "inessential formal title" rule with the Ninth and Federal Circuits' holdings concerning ownership of a copy, the Respondents quibble about inconsequentialities. Thus, in their vain effort to establish the absence of circuit conflict, Respondents urge that the decisions of the Ninth Circuit in *MAI Systems Corp. v. Peak Computer, Inc.* and the Federal Circuit in *DSC Communications Corp. v. Pulse Communications, Inc.* require a written license agreement to establish the absence of ownership in a copy of a computer program.[4]

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[1] *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993), *certiorari dismissed*, 510 U.S. 1033, 114 S.Ct. 671, 126 L.Ed.2d 640 (1994).

[2] *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir. 1999).

[3] *See* Petition for Certiorari ("Pet. App.") 6-12.

[4] Respondents' Brief in Opposition ("Resp. Opp. Br.") (continued...)

But the *MAI Systems* and *DSC Communications* courts merely examined the written agreements to determine whether they contained bars to their respective licensee defendants' ability to sell or otherwise transfer the licensed computer programs at issue. Once the inability to sell was found, the Ninth and Federal Circuits concluded that the licensees were not owners of copies and were therefore ineligible to assert a Section 117(a)(1) affirmative defense.[5] The license agreements' terms – not their written form – provided the facts on which the Ninth and Federal Circuits ruled.

In the instant petition, Krause's oral license to Titleserv barred Titleserv from selling a copy of the licensed programs' copies. Respondents urge nothing in rebuttal, and admitted such bar at oral argument. Indeed, Respondents have never claimed that they had a right to sell their copy of any of Krause's copyrighted programs. This is further confirmed by the resounding silence on point in Respondents' Brief in Opposition and the circuit and district courts' decisions below.

B. The Decision below Conflicts with the Fifth Circuit.

The Fifth Circuit in *Vault Corp. v. Quaid Software Ltd.*[6] held that copying Vault's PROLOK program into the

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[4] (...continued)
15-20.

[5] *See* Pet. App. 6-14.

[6] *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th (continued...)

memory of Quaid's computer fell within the meaning of "created as an essential step in the utilization" of Vault's program because the program could not be used unless it was first copied into a computer's memory.[7] The Fifth Circuit rejected Vault's argument that the Section 117(a) defense was only applicable to computer program copies made for the business purpose that Vault intended for the PROLOK program – prevention of unauthorized duplication of programs placed on PROLOK computer diskettes. The business purpose that Vault intended for its computer program was irrelevant for Section 117(a) purposes.[8]

In direct contradiction, the Second Circuit's decision below expressly held that Titleserv's business purposes sufficed to authorize adaptions under Section 117(a)(1). It found that "the addition of new features, such as check printing and providing for direct client access ... [that] were not strictly necessary to keep the programs functioning, but were designed to improve their functionality in serving the business for which they were created"[9] fall within the meaning of "an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner."[10]

Respondents, seeking to distinguish *Vault Corp.*, quote

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[6] (...continued)
Cir. 1988).

[7] *Id.*, at 261.

[8] *Id.*

[9] Pet. App. 14a-15a.

[10] 17 U.S.C. §117(a)(1).

a portion of one of the decision's paragraphs.[11] Respondents fail to signal the immediately preceding paragraph that places Respondents' quote in context. As the Fifth Circuit held:

> Section 117(1) permits an owner of a program to make a copy of that program provided that the copy 'is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner.' *Congress recognized that a computer program cannot be used unless it is first copied into a computer's memory, and thus provided the §117(1) exception to permit copying for this essential purpose.* See CONTU Report at 31. Vault contends that, due to the inclusion of the phrase 'and that it is used in no other manner,' this exception should be interpreted to permit only the copying of a computer program for the purpose of using it for its intended purpose. *Because Quaid copied Vault's program into its computer's memory for the express purpose of devising a means of defeating its protective function, Vault contends that §117(1) is not applicable.*
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> *We decline to construe §117(1) in this manner.* Even though the copy of Vault's program made by Quaid was not used to prevent the copying of the program placed on the PROLOK diskette by one of Vault's customers (which is the

[11] Resp. Opp. Br. 21.

> purpose of Vault's program), and was, indeed, made for the express purpose of devising a means of defeating its protective function, the copy made by Quaid was 'created as an essential step in the utilization' of Vault's program. Section 117(1) contains no language to suggest that the copy it permits must be employed for a use intended by the copyright owner, and, absent clear congressional guidance to the contrary, we refuse to read such limiting language into this exception. We therefore hold that Quaid did not infringe Vault's exclusive right to reproduce its program in copies under §106(1).[12]

2. Respondents' Arguments Concerning the First Sale Doctrine Are Unavailing.

Respondents are correct, up to a point, in stating that the first sale doctrine, codified in 17 U.S.C. §109, was not "briefed" below. Although it was not briefed before oral argument, Krause extensively relied on the first sale doctrine at oral argument and in his petition to the Second Circuit for a panel rehearing.

Section 109 was raised for the first time when Judge Leval, at oral argument, asked if the Second Circuit could find ownership as a matter of law based on an analysis of the facts of record. In response, Krause's counsel pointed out that the facts did not support that finding because Titleserv lacked the authority to sell the program copy in

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[12] *Vault Corp.*, 847 F.2d at 261 (emphasis added).

its possession.

Krause's counsel explained that the first sale doctrine authorizes the owner of a particular copy to sell that copy. A finding that Titleserv owned a copy under Section 117(a)(1), Krause's counsel continued, would conflict with the Copyright Act's longstanding meaning of ownership of a copy codified in Section 109's first sale doctrine.

Since Titleserv never claimed that formal title was not a prerequisite to ownership, there was no occasion to brief the meaning of ownership of a copy before the Second Circuit departed from the Copyright Act's explicit language authorizing "the owner of a particular copy ... to sell ... that copy."[13]

The Second Circuit's failure to address Section 109 is inexplicable, especially since its discussion of *DSC Communications*, on which the Second Circuit relied, disclosed that the Federal Circuit found that the Regional Bell Operating Companies ("RBOCs") were not owners of a copy because their inability to transfer the software conflicted with the first sale doctrine. Indeed, in discussing *DSC Communications*, the Second Circuit stated:

> The agreements also limited the authority of the RBOCs to transfer copies of the software, *even though the 'first sale' doctrine would have protected certain transfers if the RBOCs had*

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[13] 17 U.S.C. §109(a).

owned copies of the software.[14]

3. Respondents' Reliance on the Second Circuit's *Aymes v. Bonelli* Decision Is Misplaced.

Respondents' err in relying on the flawed *Aymes v. Bonelli*[15] decision to support the legitimacy of Respondents' infringing modifications.[16] In its decision below, the Second Circuit merely followed its own flawed *Aymes v. Bonelli* precedent that allowed adaptions that – while having "nothing to do with enabling the programs to continue functioning" – facilitated a business' "changed product lines, from gas barbecues to ceiling fans to swimming pool supplies...."[17]

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[14] Pet. App. 9a (emphasis added).

[15] *Aymes v. Bonelli*, 47 F.3d 23 (2d Cir.1995).

[16] Resp. Opp. Br. 14-15.

[17] Pet. App. 15a ("We already implicitly rejected Krause's argument in *Aymes II*. In that case, some of the program changes approved by our ruling as falling within the protection of §117(a)(1) had nothing to do with enabling the programs to continue functioning; they rather involved adapting the programs to changes in the defendants' business. For example, the *Aymes II* defendants changed product lines, from gas barbecues to ceiling fans to swimming pool supplies, and the alterations of the programs were designed to maintain the utility of the programs in connection with these changes in product lines. Unless we were to retreat from that ruling, we would be compelled to reject the narrow reading of §117(a)(1) which Krause urges on us.") (citation omitted).

4. Respondents Contradict Their Express Assertions in Contending That There Was No License.

Respondents have urged conflicting facts throughout this litigation. Although they now proclaim that "[t]here was simply no software license,"[18] in moving for summary judgment, Respondents asserted that "Krause granted Titleserv a verbal irrevocable license to use the computer programs he created for Titleserv."[19]

5. Respondents Seek the Same Sympathy that Titleserv's Payments to Krause Apparently Evoked in the Second Circuit.

The Second Circuit apparently sympathized with Titleserv. It referred to payments of "substantial consideration" as the foremost reason for holding that Titleserv owned copies of Krause's programs within the meaning of §117(a).

> We conclude that Titleserv owned copies of the disputed programs within the meaning of §117(a). We reach this conclusion in consideration of the following factors: *Titleserv paid*

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[18] Resp. Opp. Br. 25.

[19] Respondents' Contended Fact No. 29 in their Local Civil Rule 56.1(a) statement of material facts as to which they contended that there is no genuine issue to be tried. *See also* Magistrate Judge Wall's Report and Recommendation that states: "As an alternate theory in support of its motion for summary judgment, defendants argue, for purposes of this motion only, that Titleserv had a verbal nonexclusive license to use the programs...." Pet. App. 52a.